Rating Rationale

Monga Brothers Ltd

16 Aug 2018

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 14.00 Crs. of Monga Brothers Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Apr-2017)	Present
Fund based	11.07	11.00	Long Term	BWR BB- (Pronounces as BWR Double B Minus) Outlook: Stable	BWR BB- (Pronounces as BWR Double B Minus) Outlook: Stable Reaffirmation
Non Fund Based	3.00	3.00	Short Term	BWR A4 (Pronounced as BWR A Four)	BWR A4 (Pronounced as BWR A Four) Reaffirmation
Total	14.07	14.00	INR Fourteen Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon audited financials upto FY17, provisionals for FY18 and projections for FY19& FY20, publicly available information and information /clarifications provided by the company's management.

The rating assigned to the bank facilities of Monga Brothers Ltd has taken into consideration established operations of the entity and experienced management. The ratings, however, continues to remain constrained due to small scale of operations, leveraged capital structure , thin profit margins and intense competition from organized and unorganized sector.

Going forward, the ability of the Company to scale up its revenues, improve the profitability margins, strengthen the capital structure and efficiently manage its working capital would be key rating sensitivities.

Description of Key Rating Drivers

Promoters' experience: The company benefits from its promoters' extensive experience of more than two decades in the industry. Over the years, the company has established long standing relationships with customers and suppliers.

Low Tangible Net Worth- As per the operations and level of debt, the tangible net worth is low at Rs 6.71 Crores as on 31.3.2017 due to which the leverage (TOL/TNW) is high at 3.19x.

Working Capital Incentive Nature Of Operation: Working capital requirement is high due to inherent nature of the business.

Thin Profitability Margins : Thin Profitability margins indicated by net profit margin of 0.17 % and operating profit margin of 2.48% in FY17 because of the limited bargaining powers.

Exposure to volatility in raw material price: The main raw material is steel and iron components which are procured domestically. The price volatility of metals, combined with the limited ability of the company to pass on the changes in the price movement to end customers, leads to susceptibility of margins to fluctuations in raw material prices.

Intense competition: The entity operates in a highly fragmented industry wherein the presence of large number of players in the unorganised/organised sector limits the bargaining power.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Monga Brothers Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Monga Brothers Ltd was established in 1966 in Ludhiana. The Company is promoted by Mr. Sanjay Gupta and Mukesh Gupta. The company is engaged into the manufacturing of rough steel forgings,

squares and bars among others. Monga Brothers Limited has the capacity to produce 28000 tpa of graded steel rounds, flats, hexagons, square and bars.

Company Financial Performance

Monga Brothers Ltd Total Operating Income stood at ₹ 91.80 Crores in FY 17 as compared to Rs.94.67 crs. in FY16. PAT for FY 17 was Rs.0.15 crs. On provisional basis, the entity has achieved Net sales turnover of ₹117.42 Crores with PAT 0.22 Crores in FY18.

Rating History for the last three years

S.No	Instrument/Facility	Current Rating(2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2017	2016	2015
	Fund Based Cash Credit	Long Term	11.00	**BWR BB- Outlook: Stable reaffirmation**	**BWR BB- Outlook: Stable**	**N.A**	**N.A**
	Non Fund Based Letter Of Credit	Short Term	3.00	**BWR A4 reaffirmation**	**BWR A4**	**N.A**	**N.A**
	Total		**14.00**	**₹ Fourteen Crores Only**			

Status of non-cooperation with previous CRA (if applicable)-N.A

Any other information-N.A

Key Financial Indicators

Key Parameters	Units	2017	2016
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	91.80	94.67
EBITDA	₹ Cr	2.28	2.61
PAT	₹ Cr	0.15	0.39
Tangible Net worth	₹ Cr	6.71	6.56
Total Debt/Tangible Net worth	Times	2.17	2.29
Current Ratio	Times	1.17	1.14

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.